



Emalahleni Local Municipality
Annual Financial Statements
for the year ended 30 June 2019

Emalahleni Local Municipality

Annual Financial Statements for the year ended 30 June 2019

General Information

Legal form of entity

Local Municipality MP 312 Governed by MFMA

Nature of business and principal activities

The main business of the municipality is to structure and manage the administration, budgeting and planning process to give priority to basic needs of the community and to promote the social and economic development of the community. The main type of services rendered by the municipality includes the provision of electricity and water, collection, purifying and disposal of waste water and the construction and maintenance of roads and provision of parks, sport and recreation facilities.

Mayoral committee

Executive Mayor
Speaker
Chief Whip
Members of Mayoral committee

L M Malatjie
M B Hlumbane
C N Nkalitshana
D M Skhosana - MMC Community services
B H Maseko - MMC Development planning
S J Matshipa - MMC Corporate services
C P Maseko - MMC Financial services
T T Mathebula - MMC Environmental and waste
M S Nkosi - MMC Technical services

MPAC Chairperson
Councillors

PJ Dijiana
M Bhamjee
A J J Brits
D C Chembe
N F Coetzer
R E Cronje
P L Debeila
P J Djiana
M T Fakude
L B Goqo
D H Grobler
T P Gulube
M S Jallal
M B Jiyane
R Kgomo
A B Khumalo
K N Khumalo
B T Lukhele-Resigned during the year
T G Mabula
M S Magagula
M J Makola
T D Malahle-Resigned during the year
M M Malaza
V J Manana
M Z Maseko
G B Masilela
M A Matemane
P N Mazibuko
L Mbekeni
V J Nhlapo
D E Mlaba

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General Information

	Z B Mlangeni N L Mofokeng S L Mokoena P L Mokwena T G Mabula L Phego J J Msibi D N Mthimkhulu ZVZ Mtshweni A S Mtsweni N Naidu B D Nkosi S L Nkosi B P Nukani M B Phahlane M H Phahlamohlaka J Schneider-Breetzke T C Shabalala S B Shabangu M E Shongwe K Silaule L Steyn M A Tswaledi W A Van Dyk H J Venter M Venter P H Wilken J M Zondo V L Hills M E Morokolo
Grading of local authority	5
Accounting Officer	H S Mayisela
Chief Finance Officer (CFO)	P J Hlatshwayo
Registered office	Civic centre Mandela street Emalahleni 1035
Postal address	P O Box 3 Emalahleni 1035
Bankers	ABSA Bank Limited
Auditors	Auditor General of South Africa
Country of incorporation	South Africa

Emalahleni Local Municipality

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General Information

Central email contact details

admin@emalahleni.gov.za

Audit committee members

Audit committee chairperson

S A B Ngobeni

B Mathibela

P Mangoma

N Msibi

Emalahleni Local Municipality

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COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
DOE	Department of energy
MSCOA	Municipal Standard Chart Of Accounts
MSIG	Municipal Systems Improvement Grant
PPE	Property , plant and equipment
INCA	Infrastructure Finance Corporation Limited
UIF	Unemployment Insurance Fund
PAYE	Pay As You Earn
COGTA	Co-oprative Governance and Traditional Affairs
VAT	Value Added Tax
MPAC	Municipal Public Accounts Committee
CRC	Current Replacement Cost
MREP	Municipal Revenue Enhancement Program
NDPG	Neighbourhood Development Program Grant

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Accounting Officer's Responsibilities and Approval

The accounting officer is required by the MFMA, to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and will be given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

Although the accounting officer are primarily responsible for the financial affairs of the municipality, they are supported by the municipality's audit committee.

The audit committee are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors.

The annual financial statements set out on page 9, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2019 and were signed on its behalf by:

H S Mayisela
Accounting officer

Emalahleni Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Audit Committee Report

1. Audit Committee Responsibility

The Audit Committee reports that it has complied with its responsibilities arising from Section 166 of the Municipal Finance Management Act and Circular 65 issued by National Treasury. The Audit Committee also reports that it has adopted appropriate formal terms of reference as per its Audit Committee Charter, and it has regulated its affairs in compliance with this charter and has discharged all its responsibilities as contained therein, except that we have not reviewed changes in accounting policies and practices.

2. Audit Committee members and attendance

The Audit Committee, consisting of independent outside members listed below, meets at least four times per annum as per its approved terms of reference, although additional special meetings may be called as the need arises.

3. The effectiveness of Internal Control

Our review of the internal control environment revealed that there is room for improvement in the system of internal control of the municipality and the reduction of qualification issues of previous year. Furthermore, there are several deficiencies in the system of internal control and/or deviations that were reported by the internal auditors and the Auditor-General. However, the Audit Committee notes management's commitment and action plan to correct deficiencies.

4. In-Year Management and Monthly/Quarterly Report

The municipality does not have an effective monthly and quarterly reporting system to the Council as required by the Municipal Finance Management Act (MFMA). Furthermore, there is a room for improvement in so far as monitoring and reviews of financial and performance information on a periodically.

5. Performance Management

The AC reviewed functionality of the performance management system and it appears to be functional, however, there is a room for improvement in so far as achievement of planned targets is concerned and submission of portfolio of evidence timeously.

6. Risk Management

The AC is of the opinion that municipality's risk management appears to be effective for the better of the year in all material respect, and the municipality did implement a comprehensive risk management strategy and related policies. A sound and effective approach has been followed in developing strategic risk management plans and there is a sense of appreciation of the impact of the municipality's risk management framework on the control environment. However, there is room for improvement in so far as fraud prevention is concerned.

7. Compliance with laws and regulations

A number of non-compliance with the enabling laws and regulations were revealed by Audit Committee, AGSA, and Internal Audit during the year. Thus, there is room for improvement in so far as establishing an effective system for monitoring compliance with laws and regulations and the results of management's investigation and follow-up (including disciplinary action) of any instances of non-compliance.

8. Internal Audit

The AC is satisfied with the effectiveness of Internal Audit, and commend Management and Council for capacitating this unit.

9. Progress in implementation of AGSA findings from prior year

Not all AGSA recommendations were implemented by management at the time of this report as only 55% of the recommendations were implemented. There is room for improvement in this regard and the AC recommended to the municipality to prioritise the implementation of recommendations by AGSA.

10. Progress on implementations of Internal audit recommendations

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Audit Committee Report

Not all internal audit recommendations were implemented by management satisfactorily as only 36% of the recommendations were implemented. There is a room for improvement in this regard and thus, AC recommended to municipality to prioritise the implementation of recommendations by Internal Audit.

11. Implementations of Audit Committee Recommendations by management

Not all audit committee recommendations by management were implemented satisfactorily as only 56% of the resolutions were implemented by year end. There is a room for improvement in this regard and thus, AC recommended to municipality to fast track the implementation of recommendations by Audit Committee

12. Conclusion

The Audit Committee wishes to acknowledge the commitment from Council, management and staff of the municipality. The stability in terms of the political and administrative leadership of the municipality has contributed to these improvements report above. We would also like to thank the Executive Mayor for her support, Councillors, senior management for their efforts and internal audit for their contribution.

SAB Ngobeni (Mr)

Emalahleni Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting Officer's Report

The accounting officer submits his report for the year ended 30 June 2019.

1. Review of activities

Main business and operations

Net deficit of the municipality was R 51 370 991 (2018: deficit R 510 633 444).

2. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business

3. Subsequent events

There were no subsequent events that occurred during the financial year.

4. Accounting policies

The annual financial statements prepared in accordance with the South African Statements of Generally Accepted Accounting Practice (GRAP), including any interpretations of such Statements issued by the Accounting Practices Board, and in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury.

5. Reclassification

During the financial year the accounting officer has reclassified certain amounts in the financial statements in order to achieve fair presentation.

6. Accounting Officer

The accounting officer of the municipality during the year and to the date of this report is as follows:

H S Mayisela

7. Auditors

Auditor General of South Africa will continue in office for the next financial period.

H S Mayisela
Accounting officer

Emalahleni Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Statement of Financial Position as at 30 June 2019

Figures in Rand	Note(s)	2019	2018 Restated*
Assets			
Current Assets			
Inventories	9	32 993 038	20 284 689
Receivables from other exchange transactions	10	38 103 820	39 877 886
Receivables from non-exchange transactions	11	232 068 478	12 423 071
VAT receivable	12	144 581 784	138 322 381
Consumer debtors	13	2 665 025 110	1 855 386 041
Cash and cash equivalents	14	85 536 328	6 478 158
		3 198 308 558	2 072 772 226
Non-Current Assets			
Biological assets	3	1 972 470	1 916 173
Investment property	4	1 076 193 452	1 077 952 547
Property, plant and equipment	5	5 615 707 679	5 501 604 339
Intangible assets	6	2 483 137	3 860 313
Heritage assets	7	400 000	400 000
Other financial assets	8	4 816 262	5 107 174
		6 701 573 000	6 590 840 546
Total Assets		9 899 881 558	8 663 612 772
Liabilities			
Current Liabilities			
Loans	17	17 069 503	22 584 002
Finance lease obligation	15	2 126 512	2 126 512
Payables from exchange transactions	19	3 605 547 505	2 350 856 783
Consumer deposits	20	135 569 355	121 362 931
Unspent conditional grants and receipts	16	8 050 084	2 897 744
Provisions	18	65 405 524	62 053 483
		3 833 768 483	2 561 881 455
Non-Current Liabilities			
Loans	17	50 969 873	62 430 764
Finance lease obligation	15	(407 289)	355 428
Provisions	18	431 519 912	401 851 364
		482 082 496	464 637 556
Total Liabilities		4 315 850 979	3 026 519 011
Net Assets		5 584 030 579	5 637 093 761
Accumulated surplus		5 584 030 579	5 356 423 376

* See Note 52 & 51

Emalahleni Local Municipality

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Statement of Financial Performance

Figures in Rand	Note(s)	2019	2018 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	22	1 488 673 275	1 520 262 984
Rental of facilities and equipment	23	10 374 053	10 050 229
Commission received	25	38 425 745	32 888 563
Licences and permits	26	3 250 668	2 419 141
Sundry income	27	17 485 888	28 200 019
Fees earned	28	1 358 520	651 978
Interest revenue	29	270 743 067	226 581 592
Fair value adjustments	44	56 297	-
Actuarial gains	43	24 601 900	16 021 000
Dividends received	29	107 443	42 919
Total revenue from exchange transactions		1 855 076 856	1 837 118 425
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	30	476 565 331	458 423 084
Transfer revenue			
Government grants & subsidies	32	520 551 660	473 783 200
Public contributions and donations	33	189 912 137	15 238 712
Fines	24	273 826 824	20 200 058
Total revenue from non-exchange transactions		1 460 855 952	967 645 054
Total revenue	21	3 315 932 808	2 804 763 479
Expenditure			
Employee related costs	34	(883 415 752)	(804 594 283)
Remuneration of councillors	35	(29 926 329)	(26 925 001)
Depreciation and amortisation	36	(285 023 720)	(301 069 628)
Impairment loss	37	(2 327 614)	(17 064 979)
Finance costs	38	(408 505 916)	(132 364 040)
Lease rentals on operating lease	46	(23 340 039)	(21 432 316)
Debt Impairment	39	(191 977 999)	(630 221 695)
Bulk purchases	40	(1 048 327 153)	(917 747 340)
Contracted services	41	(234 541 943)	(234 256 274)
Grants and Subsidies	31	(18 905 377)	(21 153 962)
Loss on disposal of assets	5	(18 632 602)	(30 381 730)
Fair value adjustments	44	-	(465 241)
General Expenses	42	(222 379 355)	(177 720 434)
Total expenditure		(3 367 303 799)	(3 315 396 923)
Deficit for the year		(51 370 991)	(510 633 444)

* See Note 52 & 51

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Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at 01 July 2018	5 356 423 376	5 356 423 376
Deficit for the year	(386 612 868)	(386 612 868)
Adjustments	946 955 236	946 955 236
Restated* Balance at 01 July 2018	5 637 093 762	5 637 093 762
Changes in net assets		
Deficit for the year	(51 370 991)	(51 370 991)
Total changes	(51 370 991)	(51 370 991)
Balance at 30 June 2019	5 584 030 579	5 584 030 579
Note(s)		

* See Note 52 & 51

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Cash Flow Statement

Figures in Rand	Note(s)	2019	2018 Restated*
Cash flows from operating activities			
Receipts			
Taxation		13 210 178	19 142 459
Sale of goods and services		1 617 068 236	2 558 142 018
Grants		520 551 660	411 159 386
Interest income		270 743 067	226 581 592
Dividends received		107 443	42 919
		<u>2 421 680 584</u>	<u>3 215 068 374</u>
Payments			
Employee costs		(913 342 081)	(717 269 940)
Suppliers		(810 680 247)	(1 718 890 288)
Finance costs		(408 505 916)	(131 974 013)
		<u>(2 132 528 244)</u>	<u>(2 568 134 241)</u>
Net cash flows from operating activities		<u>289 152 340</u>	<u>646 934 133</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	5	(177 193 133)	(380 519 649)
Net cash flows from investing activities		<u>(177 193 133)</u>	<u>(377 690 489)</u>
Cash flows from financing activities			
Repayment of loans		(16 975 390)	(28 951 958)
Finance lease payments		(1 719 223)	(8 435 576)
Consumer deposits		(14 206 424)	732 763
Net cash flows from financing activities		<u>(32 901 037)</u>	<u>(36 654 771)</u>
Net increase/(decrease) in cash and cash equivalents		79 058 170	232 588 873
Cash and cash equivalents at the beginning of the year		6 478 158	(597 679)
Cash and cash equivalents at the end of the year	14	<u>85 536 328</u>	<u>231 991 194</u>

* See Note 52 & 51

Emalahleni Local Municipality

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Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	2 057 422 545	(536 924 134)	1 520 498 411	1 488 673 275	(31 825 136)	2%
Rental of facilities and equipment	6 784 849	(4 322 079)	2 462 770	10 374 053	7 911 283	321%
Interest received	193 869 159	72 486 745	266 355 904	270 743 067	4 387 163	1.65%
Dividends received	-	-	-	107 443	107 443	100%
Licences and permits	194 483	26 189 852	26 384 335	3 250 668	(23 133 667)	87.6%
Commissions received	1 584 610	972 373	2 556 983	36 238 284	33 681 301	14001%
Sundry income	30 873 245	(3 829 524)	27 043 721	18 844 408	(8 199 313)	30.3%
Fair value adjustments	-	-	-	24 658 198	24 658 198	100%
Total revenue from exchange transactions	2 290 728 891	(445 426 767)	1 845 302 124	1 852 889 396	7 587 272	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	426 739 508	99 113 498	525 853 006	476 565 331	(49 287 675)	9.37%
Transfer revenue						
Government grants & subsidies	529 415 300	3 413 189	532 828 489	520 551 660	(12 276 829)	2.3%
Public contributions and donations	23 103 689	469 770	23 573 459	189 912 137	166 338 678	705.6%
Fines	7 589 190	21 380 049	28 969 239	273 826 824	244 857 585	845.2%
Total revenue from non-exchange transactions	986 847 687	124 376 506	1 111 224 193	1 460 855 952	349 631 759	
Total revenue	3 277 576 578	(321 050 261)	2 956 526 317	3 313 745 348	357 219 031	
Expenditure						
Employee related costs	(868 353 765)	-	(868 353 765)	(883 415 752)	(15 061 987)	1.73%
Remuneration of councillors	(30 027 330)	-	(30 027 330)	(29 926 329)	101 001	0.34%
Depreciation and amortisation	(306 435 194)	(20 287 839)	(326 723 033)	(285 023 720)	41 699 313	12.7%

Emalahleni Local Municipality

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Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Impairment loss	-	-	-	(2 327 614)	(2 327 614)	100%
Finance costs	(84 041 476)	(71 586 693)	(155 628 169)	(408 505 916)	(252 877 747)	61.6%
Lease rentals on operating lease	-	-	-	(23 340 039)	(23 340 039)	100%
Debt Impairment	(388 001 064)	(79 907 971)	(467 909 035)	(191 977 999)	275 931 036	58.9%
Bulk purchases	(1 038 553 229)	(20 000 000)	(1 058 553 229)	(1 048 327 153)	10 226 076	0.97%
Contracted Services	(266 130 370)	(586 401)	(266 716 771)	(234 541 943)	32 174 828	12.0%
Grants and Subsidies	(30 162 937)	-	(30 162 937)	(18 905 377)	11 257 560	37.3%
General Expenses	(254 491 627)	31 195 909	(223 295 718)	(222 379 355)	916 363	0.41%
Total expenditure	(3 266 196 992)	(161 172 995)	(3 427 369 987)	(3 348 671 197)	78 698 790	
Operating deficit	11 379 586	(482 223 256)	(470 843 670)	(34 925 849)	435 917 821	
Loss on disposal of assets and liabilities	-	-	-	(18 632 602)	(18 632 602)	
Deficit before taxation	11 379 586	(482 223 256)	(470 843 670)	(53 558 451)	417 285 219	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	11 379 586	(482 223 256)	(470 843 670)	(53 558 451)	417 285 219	

Emalahleni Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand, which is the functional currency of the Municipality.

A summary of the significant accounting policies, which have been consistently applied, are disclosed below. All amounts have been rounded off to the nearest Rand.

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.2 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgment include

Trade receivables

The municipality assesses its trade receivables, held to maturity investments and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgments as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables, held to maturity investments and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows or service potential used to determine the value in use of tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including production estimates and service potential, together with economic factors such as exchange rates, inflation and interest.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 18 - Provisions.

Useful lives of property, plant and equipment and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for property, plant and equipment and other assets. This estimate is based on the pattern in which an asset's future economic benefits or service potential are expected to be consumed by the municipality. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives

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Accounting Policies

1.2 Significant judgements and sources of estimation uncertainty (continued)

Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note.

Effective interest rate

The municipality used the prime interest rate to discount future cash flows

Allowance for doubtful debts

On receivables an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition

1.3 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Land held for a currently held for use in the production or supply of goods or services or for administrative purposes

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

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Accounting Policies

1.3 Investment property (continued)

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Subsequent measurement

Subsequent to initial measurement investment property is measured using the cost model. The investment property is measured at cost less accumulated depreciation and accumulated impairment. The investment property is depreciated over a period of 10-50 years.

Investment property is unrecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

1.4 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

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1.4 Property, plant and equipment (continued)

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life
Infrastructure	
• Roads and paving	3-80 years
• Pedestrian paths	3-80 years
• Electricity	3-80 years
• Water	5-100 years
• Sewerage	10-60 years
Community assets	
• Buildings	5-80 years
• Recreational Facilities	5-80 years
• Security	5-80 years
• Halls	5-80 years
• Libraries	5-80 years
• Parks and gardens	5-80 years
Finance leased assets	
• Office equipment	3-15 years
Heritage assets	
• Buildings	
• Painting and artifacts	
Other assets	
• Specialist vehicles	4-20 years
• Motor cycles	3-20 years
• Trucks/Bakkies	4-20 years
• Busses	4-20 years
• Fire engines	3-10 years
• Computer hardware & Software	3-15 years
• Office machines	3-15 years
• Air conditioners	3-15 years
• Furniture & fittings	3-15 years
• Household refuse bins	5-15 years
• Bulk containers	10-55 years
• Landfill sites	10-55 years
• Quarries	10-55 years
• Emergency equipment	10-55 years
• Airport/Radio Beacons	10-30 years
• Security systems/access control	3-5 years
• Fencing	3-5 years

1.5 Property, plant and equipment

In 2018/19 financial year the municipality accounts for Game as other property, plant and equipment in accordance with GRAP 17. This game does not meet the definition of inventory as it is not sold or used in the ordinary course of operations nor is this the agricultural produce at the point of harvest. The activities undertaken are recreational purposes i.e. Biological assets are on nature reserves and are not agricultural activities for purposes of GRAP 27. The auction price has been used in the determination of the market value.

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1.6 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which a municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:

- (a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- (b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- (c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

1.7 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligation

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are initially recognised at cost model.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

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1.7 Intangible assets (continued)

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Average useful life
Computer software, internally generated	5 years
Computer software, other	5 years

1.8 Heritage assets

Initial measurement

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

Impairment

The municipality assesses at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

1.9 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of municipality and a financial liability or a residual interest of another municipality.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from a municipality's statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

financial asset is:

- cash;

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Accounting Policies

1.9 Financial instruments (continued)

- a residual interest of another municipality; or
- a contractual right to:
 - receive cash or another financial asset from another municipality; or
 - exchange financial assets or financial liabilities with another municipality under conditions that are potentially favourable to the municipality.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another municipality; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the municipality.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an municipality in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Classification

The municipality has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Investments	Financial asset measured at amortised cost
Consumable debtors	Financial asset measured at amortised cost
Receivables from exchange transactions	Financial asset measured at amortised cost
Receivables from non-exchange transactions	Financial asset measured at amortised cost

The municipality has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Consumable deposits	Financial liability measured at amortised cost
Trade and other payables from exchange transactions	Financial liability measured at amortised cost
Unspent conditional grants and receipts	Financial liability measured at amortised cost
Finance leases	Financial liability measured at amortised cost
Payables from non-exchange transactions	Financial liability measured at amortised cost
Loans	Financial liability measured at amortised cost

Initial recognition

The municipality recognises a financial asset or a financial liability in its statement of financial position when the municipality becomes a party to the contractual provisions of the instrument.

The municipality recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The municipality recognises a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of financial asset or financial liability.

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Accounting Policies

1.9 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The municipality measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the municipality establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and uncollectibility of financial assets

The municipality assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

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Accounting Policies

1.9 Financial instruments (continued)

Derecognition

Financial assets

The municipality derecognises financial assets using trade date accounting.

The municipality derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the municipality, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the municipality :
 - derecognise the asset; and
 - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the municipality transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

Financial liabilities

The municipality removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another municipality by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

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Accounting Policies

1.9 Financial instruments (continued)

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Dividends or similar distributions relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the municipality does not offset the transferred asset and the associated liability.

1.10 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease .

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

1.11 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

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Accounting Policies

1.11 Inventories (continued)

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.12 Construction contracts and receivables

Construction contract is a contract, or a similar binding arrangement, specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use.

Contractor is an entity that performs construction work pursuant to a construction contract.

Cost plus or cost based contract is a construction contract in which the contractor is reimbursed for allowable or otherwise defined costs and, in the case of a commercially-based contract, an additional percentage of these costs or a fixed fee, if any.

Fixed price contract is a construction contract in which the contractor agrees to a fixed contract price, or a fixed rate per unit of output, which in some cases is subject to cost escalation clauses.

A contractor is an entity that enters into a contract to build structures, construct facilities, produce goods, or render services to the specifications of another entity either itself or through the use of sub-contractors. The term "contractor" thus includes a general or prime contractor, a subcontractor to a general contractor, or a construction manager.

The entity assesses the terms and conditions of each contract concluded with customers to establish whether the contract is a construction contract or not. In assessing whether the contract is a construction contract, an entity considers whether it is a contractor.

Where the outcome of a construction contract can be estimated reliably, contract revenue and costs are recognised by reference to the stage of completion of the contract activity at the reporting date, as measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs.

Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent that contract costs incurred are recoverable. Contract costs are recognised as an expense in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected deficit is recognised as an expense immediately.

1.13 Impairment of cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets used with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

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1.13 Impairment of cash-generating assets (continued)

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

judgments made by management in applying the criteria to designate assets as cash-generating assets or non-cash-generating assets, are as follows:

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also tests a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

Basis for estimates of future cash flows

In measuring value in use the municipality:

- base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and
- estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

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1.13 Impairment of cash-generating assets (continued)

Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

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1.13 Impairment of cash-generating assets (continued)

Reversal of impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

1.14 Employee benefits

Employee benefits are all forms of consideration given by an municipality in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting municipality, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting municipality's own creditors (even in liquidation) and cannot be paid to the reporting municipality, unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting municipality to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:

- an municipality's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from an municipality's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the municipality has indicated to other parties that it will accept certain responsibilities and as a result, the municipality has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Emalahleni Local Municipality

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1.14 Employee benefits (continued)

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, municipality recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The municipality measures the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the municipality has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an municipality provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

Emalahleni Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1.14 Employee benefits (continued)

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an municipality pays fixed contributions into a separate municipality (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the municipality during a reporting period, the municipality recognise the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an municipality recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

1.15 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficit.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

Emalahleni Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1.15 Provisions and contingencies (continued)

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
 - the activity/operating unit or part of an activity/operating unit concerned;
 - the principal locations affected;
 - the location, function, and approximate number of employees who will be compensated for services being terminated;
 - the expenditures that will be undertaken; and
 - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 48.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Emalahleni Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1.15 Provisions and contingencies (continued)

Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.13 and.

If the related asset is measured using the revaluation model:

- changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
 - a decrease in the liability is credited directly to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit; and
 - an increase in the liability is recognised in surplus or deficit, except that it is debited directly to revaluation surplus in net assets to the extent of any credit balance existing in the revaluation surplus in respect of that asset
- a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit and net assets. If a revaluation is necessary, all assets of that class is revalued; an

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur. This applies under both the cost model and the revaluation model.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

1.16 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Emalahleni Local Municipality

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Accounting Policies

1.16 Revenue from exchange transactions (continued)

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by surveys of work performed.

Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

1.17 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by a municipality, which represents an increase in net assets, other than increases relating to contributions from owners

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, a municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Emalahleni Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1.17 Revenue from non-exchange transactions (continued)

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Transfers

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

1.18 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.19 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year

1.20 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

Emalahleni Local Municipality

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Accounting Policies

1.21 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.22 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act no 56 of 2003) the Municipal System Act (Act no 32 of 2000) and the Public office Bearers Act (Act no 20 of 1998), or is in contravention of the municipality's supply chain management policy. Irregular expenditure exclude unauthorised expenditure.

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.23 Offsetting

Assets , liabilities , revenue and expenses have not been offset except when offsetting is required or permitted by a standard of GRAP.

1.24 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria , conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

1.25 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisation's (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a cash basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2018/07/01 to 2019/06/30.

The budget for the economic entity includes all the entities approved budgets under its control.

The municipality considers any variance amount above the inflation of 10%. Explanations of the any material variances between the actual revenues and expenses as indicated above and the projected revenues by source and expenses by vote as set out in the service delivery and budget implementation plan.

Emalahleni Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1.25 Budget information (continued)

The Statement of comparative and actual information has been included in the annual financial statements as the recommended disclosure when the annual financial statements and the budget are on the same basis of accounting as determined by National Treasury.

1.26 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Joint control is the agreed sharing of control over an activity by a binding arrangement, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the ventures).

Related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

The municipality is exempt from disclosure requirements in relation to related party transactions if that transaction occurs within normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the municipality to have adopted if dealing with that individual entity or person in the same circumstances and terms and conditions are within the normal operating parameters established by that reporting entity's legal mandate.

Where the municipality is exempt from the disclosures in accordance with the above, the municipality discloses narrative information about the nature of the transactions and the related outstanding balances, to enable users of the entity's financial statements to understand the effect of related party transactions on its annual financial statements.

1.27 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

1.28 Value-Added Tax

The municipality accounts for value-added tax on an accrual basis. However the VAT paid / due to/by SARS is accounted for on a cash basis.

Notes to the Annual Financial Statements

Emalahleni Local Municipality

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2019

2018

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
<ul style="list-style-type: none">GRAP 12 (as amended 2016): InventoriesGRAP 16 (as amended 2016): Investment PropertyGRAP 17 (as amended 2016): Property, Plant and EquipmentGRAP 21 (as amended 2016): Impairment of non-cash-generating assetsGRAP 26 (as amended 2016): Impairment of cash-generating assetsGRAP 27 (as amended 2016): AgricultureGRAP 31 (as amended 2016): Intangible AssetsGRAP 103 (as amended 2016): Heritage AssetsDirective 12: The Selection of an Appropriate Reporting Framework by Public Entities	<ul style="list-style-type: none">01 April 201801 April 201801 April 201801 April 201801 April 201801 April 201801 April 201801 April 201801 April 2018	

Emalahleni Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand

3. Biological assets

	2019			2018		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Game in nature reserve	1 972 470	-	1 972 470	1 916 173	-	1 916 173

Reconciliation of biological assets - 2019

	Opening balance	Fair value adjustment	Total
Game in nature reserve	1 916 173	56 297	1 972 470

Reconciliation of biological assets - 2018

	Opening balance	Fair value adjustment	Total
Game in nature reserve	2 239 070	(322 897)	1 916 173

4. Investment property

	2019			2018		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	1 120 056 875	(43 863 423)	1 076 193 452	1 121 815 970	(43 863 423)	1 077 952 547

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4. Investment property (continued)

Reconciliation of investment property - 2019

	Opening balance	Disposals	Adjustment to accumulated depreciation and impairment	Depreciation	Total
Investment property	1 077 952 547	(98 117)	63 776	(1 724 754)	1 076 193 452

Reconciliation of investment property - 2018

	Opening balance	Disposals	Adjustment to accumulated depreciation and impairment	Impairments	Depreciation	Total
Investment property	1 079 763 642	(32 659)	18 784	(48 025)	(1 749 195)	1 077 952 547

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Emalahleni Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand

5. Property, plant and equipment

	2019			2018		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	455 003 560	-	455 003 560	455 003 560	-	455 003 560
Buildings	1 368 987 165	(793 338 796)	575 648 369	1 372 067 758	(760 902 658)	611 165 100
Furniture and fixtures	26 279 460	(8 161 406)	18 118 054	25 007 765	(3 796 729)	21 211 036
Motor vehicles	103 486 924	(55 553 822)	47 933 102	100 257 423	(59 290 923)	40 966 500
Water	2 200 325 081	(987 819 548)	1 212 505 533	2 053 577 695	(947 757 263)	1 105 820 432
Other property, plant and equipment	30 963 535	(17 983 708)	12 979 827	34 492 960	(23 291 931)	11 201 029
Sewerage	1 813 604 581	(877 585 158)	936 019 423	1 702 833 184	(850 404 704)	852 428 480
Roads	3 310 581 255	(1 996 717 036)	1 313 864 219	3 287 102 834	(1 901 586 951)	1 385 515 883
Emergency equipment	196 821	(100 725)	96 096	218 996	(98 018)	120 978
Electricity	1 865 038 320	(860 109 105)	1 004 929 215	1 797 300 225	(820 686 988)	976 613 237
Leased assets	7 323 956	(6 448 423)	875 533	7 193 958	(4 135 794)	3 058 164
Tip sites	93 708 332	(57 209 477)	36 498 855	89 002 757	(51 834 243)	37 168 514
Library books	2 365 511	(1 129 618)	1 235 893	2 365 511	(1 034 085)	1 331 426
Total	1 277 864 501	(5 662 156 822)	5 615 707 679	0 926 424 626	(5 424 820 287)	5 501 604 339

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Notes to the Annual Financial Statements

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5. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2019

	Opening balance	Additions	Work in progress additions	Work in progress Transfers	Disposals	Adjustment to accumulated depreciation	Depreciation	Impairment	Total
Land	455 003 560	-	-	-	-	-	-	-	455 003 560
Buildings	611 165 100	1 956 236	212 500	(1 144 443)	(4 536 614)	2 981 654	(34 907 158)	(78 906)	575 648 369
Furniture and fixtures	21 211 036	1 983 640	-	-	(711 941)	-	(4 217 162)	(147 519)	18 118 054
Motor vehicles	40 966 500	16 917 155	-	-	(154 449)	-	(9 793 415)	(2 689)	47 933 102
Water	1 105 820 432	153 358 808	57 626 288	(50 414 139)	(14 036 110)	8 664 135	(48 128 099)	(385 782)	1 212 505 533
Other property, plant and equipment	11 201 029	4 443 690	-	-	(384 560)	-	(2 189 917)	(90 415)	12 979 827
Sewerage	852 428 480	74 676 355	43 845 275	-	(7 750 233)	4 387 540	(31 489 895)	(78 099)	936 019 423
Roads	1 385 515 883	64 218 856	27 785 755	(63 342 892)	(5 183 297)	4 415 278	(98 776 649)	(768 715)	1 313 864 219
Emergency equipment	120 978	-	-	-	(2 205)	-	(22 677)	-	96 096
Electricity mains	976 613 237	66 107 595	39 644 609	(26 157 265)	(11 856 846)	6 087 866	(44 759 066)	(750 915)	1 004 929 215
Leased assets	3 058 164	-	-	-	-	-	(2 182 631)	-	875 533
Tip sites	37 168 514	10 064 748	122 574	(5 479 640)	(2 107)	562	(5 354 406)	(21 390)	36 498 855
Library books	1 331 426	-	-	-	-	-	(95 533)	-	1 235 893
	5 501 604 339	393 727 083	169 237 001	(146 538 379)	(44 618 362)	26 537 035	(281 916 608)	(2 324 430)	5 615 707 679

Emalahleni Local Municipality

Annual Financial Statements for the year ended 30 June 2019

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5. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Work in progress addition	Work in progress Transfers	Disposals	Adjustments to accumulated depreciation and impairment	Depreciation	Impairment loss	Total
Land	455 003 560	-	-	-	-	-	-	-	455 003 560
Buildings	648 898 387	14 093 106	492 660	(443 070)	(2 281 605)	992 667	(35 448 937)	(15 138 108)	611 165 100
Furniture and fixtures	20 843 447	3 320 778	-	-	-	879 492	(3 796 732)	(35 949)	21 211 036
Motor vehicles	40 268 812	8 984 638	-	-	-	-	(8 141 028)	(145 922)	40 966 500
Water	1 047 896 164	88 760 087	29 270 631	(12 933 592)	(7 009 032)	3 415 382	(43 538 755)	(40 453) 1	1 058 220 432
Other property, plant and equipment	12 720 087	769 233	-	-	-	(975)	(2 000 288)	(287 028)	11 201 029
Sewerage	883 798 761	46 455 965	32 744 189	(80 188 190)	(2 337 606)	1 602 331	(29 602 470)	(44 500)	852 428 480
Roads	1 438 572 135	30 183 814	37 350 607	-	(21 419 529)	9 488 727	(107 155 760)	(1 504 111) 1	1 385 515 883
Emergency equipment	143 669	-	-	-	-	-	(22 691)	-	120 978
Electricity	976 432 743	44 324 741	47 968 155	(34 202 329)	(25 884 399)	13 069 132	(44 173 701)	(921 105)	976 613 237
Leased assets	4 451 611	898 642	-	-	-	(360)	(2 291 729)	-	3 058 164
Tips sites	40 308 063	-	2 096 361	-	(7 165)	3 242	(5 231 987)	-	37 168 514
Library books	1 427 295	-	-	-	-	-	(95 869)	-	1 331 426
	5 570 764 734	237 791 004	149 922 603	(127 767 181)	(58 939 336)	29 449 638	(281 499 947)	(18 117 176)	5 501 604 339

Pledged as security

No Property plant and equipment was pledged as a security.

Emalahleni Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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5. Property, plant and equipment (continued)

Reconciliation of Work-in-Progress 2019

	Opening balance	Additions	Transfers	Total
Buildings	2 890 450	212 500	(1 144 443)	1 958 507
Electricity	46 747 991	39 644 609	(26 157 265)	60 235 335
Roads and stormwater	47 852 211	27 785 755	(63 342 892)	12 295 074
Tip sites	5 357 066	122 574	(5 479 640)	-
Sanitation	42 453 506	43 845 275	-	86 298 781
Water	33 759 753	57 626 288	(50 414 139)	40 971 902
	179 060 977	169 237 001	(146 538 379)	201 759 599

Reconciliation of Work-in-Progress 2018

	Opening balance	Additions	Transfers	Total
Buildings	2 840 860	492 660	(443 070)	2 890 450
Electricity	32 982 165	47 968 155	(34 202 329)	46 747 991
Roads and stormwater	10 501 604	37 350 607	-	47 852 211
Tip sites	3 260 705	2 096 361	-	5 357 066
Sanitation	89 897 507	32 744 189	(80 188 190)	42 453 506
Water	17 422 709	29 270 636	(12 933 592)	33 759 753
	156 905 550	149 922 608	(127 767 181)	179 060 977

Work in progress projects taking long to complete during the year

During the 2018/19 financial year the following Work in progress projects are taking long to complete due to budget constraints :

Access control systems	83 731
Air conditioner	47 335
NDCP -Non motorised transport	1 614 941
MIG - Comprehensive infrastructure plan	844 163
	2 590 170

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

6. Intangible assets

	2019			2018		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	8 339 343	(5 856 206)	2 483 137	8 339 343	(4 479 030)	3 860 313

Reconciliation of intangible assets - 2019

	Opening balance	Amortisation	Total
Computer software, other	3 860 313	(1 377 176)	2 483 137

Emalahleni Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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6. Intangible assets (continued)

Reconciliation of intangible assets - 2018

	Opening balance	Amortisation	Total
Computer software, other	5 237 802	(1 377 489)	3 860 313

7. Heritage assets

	2019			2018		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Sculptures	400 000	-	400 000	400 000	-	400 000

Reconciliation of heritage assets 2019

	Opening balance	Total
Sculptures	400 000	400 000

Reconciliation of heritage assets 2018

	Opening balance	Total
Sculptures	400 000	400 000

8. Other financial assets

Designated at fair value

Listed shares - Old Mutual	862 564	1 153 476
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At amortised cost

Long term Deposits-New Republic Bank	3 953 698	3 953 698
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Total other financial assets

4 816 262	5 107 174
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Non-current assets

Designated at fair value	862 564	1 153 476
At amortised cost	3 953 698	3 953 698
	4 816 262	5 107 174

Financial assets at fair value

9. Inventories

Consumable stores	31 297 782	18 958 625
Water for distribution	986 648	615 861
Other 1	10 289	11 884
Other 2	698 319	698 319
	32 993 038	20 284 689

Emalahleni Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Figures in Rand	2019	2018
10. Receivables from other exchange transactions		
Other receivables	18 042 646	16 302 706
Funeral expenses-employees and councillors	75 450	75 450
Councillors UIF for prior year	763 157	763 157
New Water Pre payment	12 000 000	12 000 000
Housing/ ervens loans	6 844 660	6 844 660
Recoverable projects	346 535	3 860 541
Damage to minisub No : 21 Phola Zone 5	31 372	31 372
	38 103 820	39 877 886
11. Receivables from non-exchange transactions		
Traffic Fines	232 068 478	12 423 071
12. VAT receivable		
VAT	144 581 784	138 322 381
<p>The municipality pays VAT over to SARS using the cash basis. However the annual financials statements are prepared using the accrual basis of accounting. Hence the difference between the net VAT due to the municipality as reflected on the VAT 201 refunds and the net VAT payable disclosed on the financial statements. All VAT returns have been submitted by the due date throughout the year.</p>		
13. Consumer debtors		
Gross balances		
Rates	613 945 513	768 479 314
Electricity	1 086 141 141	839 469 510
Water	1 567 540 483	1 100 590 783
Sewerage	582 457 799	423 199 147
Refuse	353 911 899	247 804 097
Other (specify)	114 326 520	36 085 721
	4 318 323 355	3 415 628 572
Less: Allowance for impairment		
Rates	(114 271 371)	(506 051 731)
Electricity	(342 770 442)	(337 509 050)
Water	(744 130 613)	(488 074 360)
Sewerage	(248 057 793)	(132 685 304)
Refuse	(171 257 373)	(78 238 380)
Other (specify)	(32 810 653)	(17 683 706)
	(1 653 298 245)	(1 560 242 531)
Net balance		
Rates	499 674 142	262 427 583
Electricity	743 370 699	501 960 460
Water	823 409 870	612 516 423
Sewerage	334 400 006	290 513 843
Refuse	182 654 526	169 565 717
Other (specify)	81 515 867	18 402 015
	2 665 025 110	1 855 386 041

Emalahleni Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Figures in Rand	2019	2018
13. Consumer debtors (continued)		
Included in above is receivables from exchange transactions		
Electricity	743 370 699	501 960 460
Water	823 409 870	612 516 423
Sewerage	334 400 006	290 516 843
Refuse	182 654 526	169 565 717
	2 083 835 101	1 574 559 443
Included in above is receivables from non-exchange transactions (taxes and transfers)		
Rates	499 674 142	262 427 583
Other (specify)	81 515 867	18 402 015
	581 190 009	280 829 598
Net balance	2 665 025 110	1 855 389 041
Rates		
Current (0 -30 days)	55 178 664	28 979 698
31 - 60 days	30 620 026	16 081 560
61 - 90 days	25 270 029	13 271 755
91 - 120 days	21 778 485	11 438 005
121 - 365 days	20 096 168	10 554 450
> 365 days	346 730 770	182 102 115
	499 674 142	262 427 583
Electricity		
Current (0 -30 days)	43 994 114	29 706 990
31 - 60 days	22 870 927	15 443 575
61 - 90 days	18 086 589	12 212 954
91 - 120 days	16 802 398	11 345 806
121 - 365 days	15 732 405	10 623 294
> 365 days	625 884 266	422 627 841
	743 370 699	501 960 460
Water		
Current (0 -30 days)	25 198 091	18 744 304
31 - 60 days	18 494 081	13 757 339
61 - 90 days	20 932 115	15 570 938
91 - 120 days	19 511 687	14 514 313
121 - 365 days	17 326 995	12 889 169
> 365 days	721 946 901	537 040 360
	823 409 870	612 516 423
Sewerage		
Current (0 -30 days)	6 829 127	3 257 574
31 - 60 days	6 421 091	3 062 936
61 - 90 days	5 955 284	2 840 740
91 - 120 days	6 328 490	3 018 764
121 - 365 days	5 937 169	2 832 099
> 365 days	302 928 845	275 501 730
	334 400 006	290 513 843

Emalahleni Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Figures in Rand	2019	2018
13. Consumer debtors (continued)		
Refuse		
Current (0 -30 days)	7 224 069	11 887 554
31 - 60 days	5 040 684	8 294 688
61 - 90 days	4 711 414	7 752 860
91 - 120 days	4 432 387	7 293 707
121 - 365 days	4 570 048	7 520 235
> 365 days	156 675 924	126 816 673
	182 654 526	169 565 717
Other (specify)		
Current (0 -30 days)	(4 568 879)	(1 031 414)
31 - 60 days	2 192 946	495 052
61 - 90 days	2 202 873	497 293
91 - 120 days	2 117 775	478 083
121 - 365 days	2 046 566	462 007
> 365 days	77 524 586	17 500 994
	81 515 867	18 402 015
Summary of debtors by customer classification		
Reconciliation of allowance for impairment		
Balance at beginning of the year	(1 562 012 628)	(931 790 933)
Contributions to allowance	(91 285 618)	(531 787 567)
Debt impairment written off against allowance	-	(98 434 128)
	(1 653 298 246)	(1 562 012 628)
14. Cash and cash equivalents		
Cash and cash equivalents consist of:		
Collateral Investments	235 386	219 105
Bank balances	77 353 900	5 572 061
Market Account	259 447	504 376
Call Account	7 657 832	129 038
Petty cash	29 763	53 578
	85 536 328	6 478 158

Emalahleni Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Figures in Rand 2019 2018

14. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2019	30 June 2018	30 June 2017	30 June 2019	30 June 2018	30 June 2017
ABSA BANK -Main account-1360-000-091	12 281 539	7 862 635	5 933 832	77 072 421	5 311 757	4 245 164
ABSA BANK - Licencing - 4080-890-928	1 805 170	2 304 293	1 401 048	646 986	625 812	625 812
ABSA BANK - Nics-4080-890-952	-	-	54 049	-	-	-
ABSA BANK - Traffic fines - 4080-890-910	620 787	30 825	28 629	(365 507)	(365 507)	(365 507)
ABSA BANK - Market - 1360-000-067	259 447	504 376	200 369	259 447	504 376	200 369
ABSA BANK - MIG call account - 4080 885-959	4 511 849	638	(5 450)	4 511 841	638	(5 450)
ABSA BANK - DOE call account- 4080-886-078	2 835 851	933	(4 995)	2 835 851	933	(4 994)
ABSA BANK - Cheque account - 4081-372-218	309 309	127 466	750	310 140	127 466	750
NEDBANK BANK-Collateral Account	184 189	171 460	157 548	184 189	171 460	157 548
FNB Collateral	51 197	47 644	44 158	51 197	47 644	44 158
PETTY cash	-	-	-	29 763	53 578	31 372
Total	22 859 338	11 050 270	7 809 938	85 536 328	6 478 157	4 929 222

15. Finance lease obligation

Present value of Minimum lease payments due

- within one year	(407 289)	355 428
- in second to fifth year inclusive	2 126 289	1 575 714

Present value of minimum lease payments

1 719 000	1 931 142
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Non-current liabilities	(407 289)	355 428
Current liabilities	2 126 512	2 126 512
	1 719 223	2 481 940

The municipality enters into finance lease agreement with Konica minolta and Motswako office solutions. The municipality leases its photocopier machines. The average lease term is 3 years and the average effective borrowing rate is 7% for all new leases entered into (2018:9%). Interest rates are fixed at the contract date. All leases have fixed repayments and no arrangements have been entered into for contingent rent.

16. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts

Municipal revenue enhancement	9 804	9 804
Human settlement	1 000 623	2 835 689
Neighbourhood Development partnership grant	251	52 251
Water service infrastructure grants	7 039 406	-
	8 050 084	2 897 744

The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; an

Emalahleni Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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16. Unspent conditional grants and receipts (continued)

See not for reconciliation of grants from National/Provincial Government.

Emalahleni Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Figures in Rand	2019	2018
17. Loans		
At amortised cost		
INCA-Standard Bank	11 211 752	14 062 884
The municipality has entered into the following agreements with INCA:		
1. The loan amount is R 4 400 000.00 for a period of 10 years with a redeemable date 31 December 2018, The applicable interest rate 9.4% per annum with an installment of R 34 4824.45 bi-annually.		
2. The loan amount is R 2 519 347.00 for a period of 15 years with a redeemable date 31 December 2021, The applicable interest rate 5% per annum with an installment of R 158 529.50 bi-annually.		
3. The loan amount is R 21 900 000.00 for a period of 15 years with a redeemable date 30 June 2022, The applicable interest rate 11.12% per annum with an installment of R 102 833.81 bi-annually .		
4. The loan amount is R 2 700 000.00 for a period of 15 years with a redeemable date 31 December 2022, The applicable interest rate 9.35% per annum with an installment of R 169 174.96 bi-annually.		
5. The loan amount is R 605 100.00 for a period of 10 years with a redeemable date 31 December 2018, The applicable interest rate 9.4% per annum with an installment of R 47 311.41 bi-annually.		
6. The loan amount is R 4 802 852.00 for a period of 15 years with a redeemable date 31 December 2024, The applicable interest rate 9.35% per annum with an installment of R 300 808.00 bi-annually.		
Development Bank of South Africa	37 775 378	47 136 573
The municipality has entered into the following agreements with DBSA:		
1. The loan amount is R 82 547 000.00 for a period of 15 years with a redeemable date 30 June 2023, The applicable interest rate 9.28% per annum with an installment of R 5 154 352.23 bi-annually.		
2. The loan amount is R 2 350 123.00 for a period of 15 years with a redeemable date 30 June 2023, The applicable interest rate 5% per annum with an installment of R 112 314.77 bi-annually.		
3. The loan amount is R 13 100 000.00 for a period of 20 years with a redeemable date 30 June 2019, The applicable interest rate 9.38% per annum with an installment of R 1 02 193.66 bi-annually.		
4. The loan amount is R 2 582 560.00 for a period of 10 years with a redeemable date 30 June 2018, The applicable interest rate 5% per annum with an installment of R 165 707.18 bi-annually.		
5. The loan amount is R 6 700 000.00 for a period of 15 years with a redeemable date 30 June 2018, The applicable interest rate 9.34% per annum with an installment of R 419 901.02 bi-annually.		
6. The loan amount is R 15 019 633.00 for a period of 20 years with a redeemable date 30 June 2019, The applicable interest rate 12.05% per annum with an installment of R 1 092 861.67 bi-annually		

Emalahleni Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Figures in Rand	2019	2018
17. Loans (continued)		
Nedbank	19 052 246	23 815 309
The municipality has entered into the following agreements with Nedbank:		
1. The loan amount is R 71 445 948.00 for a period of 1 years with a redeemable date 30 June 2023, The applicable interest rate 11.39% per annum with an installment of R 4 668 261.00 bi-annually.		
	68 039 376	85 014 766
Total other financial liabilities	68 039 376	85 014 766
Non-current liabilities		
At amortised cost	50 969 873	62 430 764
Current liabilities		
At amortised cost	17 069 503	22 584 002

Emalahleni Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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18. Provisions

Reconciliation of provisions - 2019

	Opening Balance	Additions	Interest	Total
Land fill sites	162 162 364	-	17 891 360	180 053 724
Employee benefit cost	239 689 000	11 777 188	-	251 466 188
Provisions for staff leave	62 053 483	3 352 041	-	65 405 524
	463 904 847	15 129 229	17 891 360	496 925 436

Reconciliation of provisions - 2018

	Opening Balance	Additions	Interest	Total
Land fill sites	9 661 698	139 385 049	13 115 617	162 162 364
Employee benefit cost	222 916 000	16 773 000	-	239 689 000
Provisions for staff leave	52 322 491	9 730 992	-	62 053 483
	284 900 189	165 889 041	13 115 617	463 904 847

Non-current liabilities	431 519 912	401 851 364
Current liabilities	65 405 524	62 053 483
	496 925 436	463 904 847

Provision For Landfill site.

Provision for rehabilitation of landfill sites relates to the legal obligation to restore and rehabilitate the Kriel Leeupoort and Phola landfill site used for waste disposal. The risks and uncertainties that inevitably surround many events and circumstances shall be taken into account in reaching the best estimate of provision.

Risk describes variety of outcome. A risk adjustment may increase the amount at which a liability is measured. Caution is needed in making judgments under conditions of uncertainty, so that revenue or assets are not overstatement and expenses or liabilities are not understated. However, uncertainty does not justify the creation of excessive provisions or deliberate overstatement of liabilities. For example if the projected costs of a particularly adverse outcome are estimated on a prudent basis, that outcome is not then deliberately treated as more probable than is realistically the case. Care is needed to avoid duplicating adjustments for risk and uncertainties with consequent overstatement of a provision.

Risk that was taken into account and the estimated affect on the discounting rate:

1. The landfill site is fenced off.
2. There are no weight bridge and no records are kept of vehicles entering the site.
3. There is no control over waste types entering the site. This may lead that possible dangerous and hazardous material be dumped in the site that may lead to possible fines.
4. During our inspection of the site, no traces of medical waste were found.
5. The subject property is surrounded by farms.

Quantification of the risk factors:

1. The landfill site was fenced off.
2. No records kept.
3. Waste types.
4. No medical waste.
5. Surrounded by farms.

Employee benefits Actuarial Method and assumptions

Below we have summarised the reconciliation of the opening accrued liability as at the prior valuation date 30 June 2018 to the current valuation date of 30 June 2019. A projection for 30 June 2020 is also provided.

	30 June 2018 R's	30 June 2019 R's
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Emalahleni Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Figures in Rand 2019 2018

18. Provisions (continued)

Opening accrued liability as at	222,916,000	239,689,000
Current service cost	21,422,000	22,243,000
Current interest cost	15,637,000	18,866,000
Medical contributions subsidies for continuation pensioners	-4,265,000	-4,439,000
Projected accrued liability	255,710,000	276,359,000
Actuarial (gain)/loss over financial year	-16,021,000	-24,892,812
Closing accrued liability	239,689,000	251,466,188

The actual expense cost for the year ending 30 June 2019, and the net change in the accrued obligation over the financial year ending 30 June 2019 are determined as follows:

	R's
Current service cost	22,243,000
Current interest cost	18,866,000
Actuarial (gain)/loss	-24,892,812
Net expense recognised in income statement as at 30 June 2019	16,216,188
Medical contributions subsidies for continuation pensioners	-4,439,000
Net change in the accrued liability over the financial year ending 30 June 2019	11,777,188

It is important to note that the illustrated results are based on the valuation data supplied by Emalahleni and valuation assumptions applied on the data agreed with Emalahleni

19. Payables from exchange transactions

Trade payables	3 335 462 717	2 211 810 028
Payments received in advanced	111 006 796	45 720 211
Other creditors	75 307 299	30 226 047
Retentions	45 271 553	46 320 202
Market Agency	259 447	504 376
Deposits Other	38 239 693	16 275 919
	3 605 547 505	2 350 856 783

20. Consumer deposits

Water and electricity	135 569 355	121 362 931
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21. Revenue

Service charges	1 488 673 275	1 520 262 984
Rental of facilities and equipment	10 374 053	10 050 229
Agency services	38 425 745	32 888 563
Licences and permits	3 250 668	2 419 141
Fair value adjustments	56 297	-
Actuarial gains	24 601 900	16 021 000
Other income	17 485 888	28 200 019
Fees earned	1 358 520	651 978
Interest received	270 743 067	226 581 592
Dividends received	107 443	42 919
Property rates	476 565 331	458 423 084
Government grants & subsidies	520 551 660	473 783 200
Public contributions and donations	189 912 137	15 238 712
Fines	273 826 824	20 200 058
	3 315 932 808	2 804 763 479

Emalahleni Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2019	2018
21. Revenue (continued)		
The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	1 488 673 275	1 520 262 984
Rental of facilities and equipment	10 374 053	10 050 229
Agency services	38 425 745	32 888 563
Licences and permits	3 250 668	2 419 141
Other income	17 485 888	28 200 019
Fees earned	1 358 520	651 978
Interest revenue	270 743 067	226 581 592
Dividends received	107 443	42 919
	1 830 418 659	1 821 097 425
The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	476 565 331	458 423 084
Transfer revenue		
Government grants & subsidies	520 551 660	473 783 200
Public contributions and donations	189 912 137	15 238 712
Fines	273 826 824	20 200 058
	1 460 855 952	967 645 054
22. Service charges		
Sale of electricity	862 995 594	825 596 287
Sale of water	387 244 266	419 538 358
Sewerage and sanitation charges	123 326 036	174 488 545
Refuse removal	115 107 379	100 639 794
	1 488 673 275	1 520 262 984
23. Rental of facilities and equipment		
Premises		
Premises	8 190 379	7 841 253
Theatre hire	120 294	170 838
Venue hire	853 401	849 538
Rental of furniture	7 436	13 962
	9 171 510	8 875 591
Garages and parking		
Rental of hangars	870	512
Facilities and equipment		
Rental of equipment	1 201 673	1 174 126
	10 374 053	10 050 229

Emalahleni Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2019	2018
24. Fines		
Building Fines	385 529	88 702
Illegal Connections Fines	758 834	1 425 454
Law Enforcement Fines	77 015	9 342
Overdue Books Fines	1 696	7 010
Municipal Traffic Fines	272 603 750	18 669 550
	273 826 824	20 200 058
25. Commission received		
Collection commission	4 862 008	2 763 527
Fees - Prov : Monies	33 563 737	30 125 036
	38 425 745	32 888 563
26. Licences and permits		
Drivers licenses - Produba	2 543 591	2 124 679
Flammable liquid licenses	285 941	143 849
Hawkers association	421 136	150 613
	3 250 668	2 419 141
27. Sundry income		
Tender documents	132 016	441 746
Building line relaxation	4 889 361	3 054 970
SETA claims	1 406 523	1 078 794
Unclaimed deposits	3 504 406	16 893 962
Incidental income	7 553 582	6 730 546
	17 485 888	28 200 018
28. Fees earned		
Information	1 335 318	635 616
Library books	8 272	9 897
Parking	14 930	6 465
	1 358 520	651 978
29. Investment revenue		
Dividend revenue		
Listed financial assets - Local	107 443	42 919
Interest revenue		
Interest charged on arrear accounts	270 743 067	226 581 592
	270 850 510	226 624 511

Emalahleni Local Municipality

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Figures in Rand	2019	2018
30. Property rates		
Rates received		
Property rates	<u>476 565 331</u>	<u>458 423 084</u>
Valuations		
Residential	34 852 090 683	34 597 413 943
Commercial	10 695 119 760	9 860 027 400
State	977 812 800	1 012 312 800
Municipal	2 140 369 400	2 609 570 560
Other (Agricultural,Mining,etc)	5 514 667 200	6 099 517 140
	<u>54 180 059 843</u>	<u>54 178 841 843</u>
31. Grants and subsidies paid		
Other subsidies		
Grants and subsidies paid to the indigent	<u>18 905 377</u>	<u>21 153 962</u>

Emalahleni Local Municipality

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Figures in Rand	2019	2018
32. Government grants and subsidies		
Operating grants		
Equitable share	325 738 000	288 802 000
Municipal Infrastructure Grant	120 967 000	110 815 000
National Treasury(Fin.Man.Grant)	2 215 000	2 145 000
Grant-Expanded Public Works Programme	4 231 000	1 717 000
Grant-Department of Energy	42 000 000	50 000 000
Grant-Human Settlement	1 835 066	10 856 446
Grant-Capital Neighbourhood development grant	10 605 000	9 447 754
Water service infrastructure grant	12 960 594	-
	520 551 660	473 783 200

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

All registered indigent are entitled to receive a monthly subsidy of R 217 VAT inclusive - (2018 R208), which is funded from the grant.

Extended Public Works Programme Incentive

Current-year receipts	4 231 000	1 717 000
Conditions met - transferred to revenue	(4 231 000)	(1 717 000)
	-	-

This grant was used to improve service delivery in municipalities as part of the upgrading of informal and formal settlements. Included in the roads, sewerage, water and fencing votes.

MIG Grant

Current-year receipts	120 967 000	110 815 000
Conditions met - transferred to revenue	(120 967 000)	(110 815 000)
	-	-

This grant was used to construct roads, sewerage and water infrastructure as part of the upgrading of informal and formal settlement areas.

FMG Grant

Current-year receipts	2 215 000	2 145 000
Conditions met - transferred to revenue	(2 215 000)	(2 145 000)
	-	-

This grant was used to fund expenditure to enhance National Treasury Budget Reform program.

Municipal revenue enhancement

Balance unspent at beginning of year	9 804	9 804
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This grant was used to install services to new settlements.

Emalahleni Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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32. Government grants and subsidies (continued)

Human settlement grant

Balance unspent at beginning of year	2 835 689	13 692 135
Conditions met - transferred to revenue	(1 835 066)	(10 856 446)
	1 000 623	2 835 689

This grant was used to improve service delivery in municipalities as part of the upgrading of informal and formal settlements. Included in the roads, sewerage, water and fencing votes.

Neighbourhood Development Partnership grant

Balance unspent at beginning of year	52 251	9 500 000
Balance unspent at beginning of year	10 605 000	-
Conditions met - transferred to revenue	(10 605 000)	(9 447 749)
Reverted back to National treasury	(52 000)	-
	251	52 251

This grant was used to improve service delivery in municipalities as part of the upgrading of informal and formal settlements.

Water service infrastructure grant

Current-year receipts	20 000 000	-
Conditions met - transferred to revenue	(12 960 594)	-
	7 039 406	-

This grant was used to facilitate the planning and implementation of various water sanitation projects to accelerate backlog reduction and enhance the sustainability of services.

33. Public contributions and donations

Mayors donation	92 696	-
Nkangala District Municipality	-	11 410 483
Palesa Coal mining	189 819 441	3 783 261
Westcoal Mining	-	44 968
	189 912 137	15 238 712

Emalahleni Local Municipality

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Figures in Rand	2019	2018
34. Employee related costs		
Basic	522 678 000	476 519 793
Bonus	36 442 361	36 443 202
Medical aid - company contributions	49 973 575	47 476 223
UIF	2 817 656	2 781 660
Leave pay provision charge	10 681 482	9 730 991
Other short term benefit	57 690 236	50 961 503
Pension fund contributions	98 610 106	91 147 993
Overtime payments	77 033 949	62 859 296
Housing benefits and allowances	3 605 265	3 833 533
Contributions-Group insurance	1 640 122	1 418 089
Current service costs	22 243 000	21 422 000
	883 415 752	804 594 283
Remuneration of municipal manager		
Annual Remuneration	1 129 075	1 439 893
Cellphone Allowance	48 000	-
Contributions to UIF, Medical and Pension Funds	429 105	104 978
Travel allowance	327 402	764 248
	1 933 582	2 309 119
Remuneration of chief finance officer		
Annual Remuneration	1 022 545	962 733
Cellphone Allowance	36 000	-
Contributions to UIF, Medical and Pension Funds	402 395	321 978
Tavel allowance	640 796	659 220
Other	72 000	-
	2 173 736	1 943 931
Remuneration of Executive Director-Community Services		
Annual Remuneration	841 655	956 432
Cellphone Allowance	36 000	-
Contributions to UIF, Medical and Pension Funds	464 327	349 550
Travel allowance	657 453	647 790
Other	2 245	6 300
	2 001 680	1 960 072
Remuneration of executive directors-Corporate services		
Annual Remuneration	1 165 476	1 128 230
Cellphone Allowance	36 000	-
Contributions to UIF, Medical and Pension Funds	349 463	247 404
Travel allowance	657 453	647 790
Other	5 930	-
	2 214 322	2 023 424
Remuneration of executive director-Environmental services		
Annual Remuneration	1 004 474	1 126 218
Cellphone Allowance	36 000	-
Contributions to UIF, Medical and Pension Funds	301 508	179 764
Travel allowance	674 199	662 781

Emalahleni Local Municipality

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Figures in Rand	2019	2018
34. Employee related costs (continued)		
Other	5 117	7 845
	2 021 298	1 976 608
Remuneration of executive director-Infrastructure services		
Annual Remuneration	845 478	412 861
Cellphone Allowance	36 000	-
Contributions to UIF, Medical and Pension Funds	501 462	86 413
Travel allowance	168 000	511 825
Other	26 183	150 612
	1 577 123	1 161 711
Remuneration of executive director-Development planning		
Annual Remuneration	670 955	202 336
Cellphone Allowance	22 000	-
Contributions to UIF, Medical and Pension Funds	332 842	60 878
Travel Allowance	449 302	218 430
Other	62 413	62 778
	1 537 512	544 422
35. Remuneration of councillors		
Mayoral Committee Members	17 080 881	4 276 885
Councillors	6 245 352	16 650 740
Councillors' pension contribution	6 600 096	5 997 376
	29 926 329	26 925 001
36. Depreciation and amortisation		
Property, plant and equipment	281 921 791	297 943 258
Investment property	1 724 754	1 749 195
Intangible assets	1 377 175	1 377 175
	285 023 720	301 069 628
37. Impairment of assets		
Impairment loss		
Property, plant and equipment	2 327 614	17 064 979
38. Finance costs		
Eskom account	400 319 242	108 786 067
Finance leases	-	390 027
Long term liabilities	6 935 384	10 072 329
Landfill sites	1 251 290	13 115 617
	408 505 916	132 364 040

Emalahleni Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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39. Debt impairment

Bad debts	191 977 999	630 221 695
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The Calculation for bad debt provision is based on a payment ratio per debtor i.e total amounts paid in a year over or divided by a total bill in a year.

- a) $P = (1 - Pd)$ where P is the provision for bad debt
- b) $Pd = \text{bad debt provision} / \text{Pmt} \times 100$

Pmt equals to Total Payments in the financial year

L equals to Total Levies in a financial year

Special consideration to be given to debtors with payment arrangement with regard to the risk of non-payment.

40. Bulk purchases

Electricity - Eskom	969 264 553	883 689 462
Water	79 062 600	34 057 878
	1 048 327 153	917 747 340

Electricity losses	Total purchases	Total sales	Units unaccounted for	Losses in rand value	% of distribution losses
2019	1 000 834 022	589 985 800	410 848 222	230 414 269	23,94 %
2018	975 818 971	627 357 722	348 461 249	317 099 737	35,71 %

Water losses	Total purchases	Total sales	Units unaccounted for	Losses in rand value	% of distribution losses
2019	43 309 775	24 797 394	11 644 899	123 435 929	27,00 %
2018	40 878 833	24 566 217	10 186 556	84 039 087	25,00 %

41. Contracted services

Outsourced Services

Animal Care	15 096	17 333
Burial Services	64 138	46 990
Catering Services	727 931	418 345
Cleaning Services	133 776	151 382
Fire Services	48 480	50 310
Meter Management	10 857 122	10 131 341
Security Services	17 576 679	19 549 172
Traffic Fines Management	5 897 150	-
Water Takers	112	1 683

Consultants and Professional Services

Business and Advisory	12 956 490	9 722 302
Infrastructure and Planning	2 202 164	256 142
Laboratory Services	143 643	4 744 945
Legal Cost	23 461 274	18 976 533

Emalahleni Local Municipality

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Figures in Rand	2019	2018
41. Contracted services (continued)		
Contractors		
Audio-visual Services	9 500	55 944
Building	10 884	6 135
Electrical	4 848 337	7 860 100
Employee Wellness	290 406	442 245
Event Promoters	87 693	65 611
Gardening Services	28 949	64 855
Inspection Fees	5 039 229	2 108 787
Maintenance of Buildings and Facilities	3 022 880	2 442 369
Maintenance of Equipment	23 251 221	14 864 075
Maintenance of Unspecified Assets	115 988 279	136 052 226
Medical Services	991	3 266
Preservation/Restoration/Dismantling/Cleaning Serv	-	43 265
Sewerage Services	7 879 519	6 180 918
	234 541 943	234 256 274
42. General expenses		
Advertising	1 070 383	734 893
Assessment rates & municipal charges	2 168	520 380
Auditors remuneration	8 362 055	6 940 121
Bank charges	8 221 854	9 387 775
Commission paid	9 076 492	156 895
Computer expenses	323 410	5 127 579
Entertainment	708 789	986 573
Insurance	16 231 197	15 466 082
Levies	7 114 330	6 457 809
Motor vehicle expenses	2 650 896	2 725 760
Fuel and oil	13 909 893	7 377 733
Postage and courier	2 903 948	1 337 634
Printing and stationery	2 187 253	1 965 222
Protective clothing	4 026 935	3 005 206
Royalties and license fees	5 726 555	3 424 958
Subscriptions and membership fees	8 411 350	10 564 269
Telephone and fax	5 673 672	13 133 523
Transport and freight	19 547 184	18 100 796
Training	2 115 069	2 296 152
Travel - local	1 188 166	1 325 594
Other expenses	14 656 878	18 088 899
Material and provisions	45 240 037	32 588 164
Landfill sites	17 973 621	-
Workmens compensation	10 166	-
Stipends	4 275	55 458
Impairment of traffic fines	25 042 779	15 952 959
	222 379 355	177 720 434
43. Actual gains or losses		
Actuarial gains or losses	24 601 900	16 021 000
44. Fair value adjustments		
Game Animals	56 297	(322 897)
Investment	-	(142 344)
	56 297	(465 241)

Emalahleni Local Municipality

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Figures in Rand	2019	2018
45. Auditors' remuneration		
Fees	8 362 055	6 940 121
46. Operating surplus (deficit)		
Operating surplus (deficit) for the year is stated after accounting for the following:		
Operating lease charges		
Motor vehicles		
• Contractual amounts	1 639 732	737 721
Equipment		
• Contractual amounts	1 918 424	1 778 488
Plant and equipment		
• Contractual amounts	334 159	518 486
Lease rentals on operating lease - Other		
• Contractual amounts	19 447 724	18 397 621
	23 340 039	21 432 316
Loss on sale of property, plant and equipment	(18 632 602)	(30 381 730)
Impairment on property, plant and equipment	2 327 614	17 064 979
Amortisation on intangible assets	1 377 175	1 377 175
Depreciation on property, plant and equipment	281 921 791	297 943 258
Depreciation on investment property	1 724 754	1 749 195
Employee costs	913 342 081	831 519 284
47. Commitments		
Capital commitments		
Already contracted for but not provided for		
• Property, plant and equipment	249 812 711	178 482 444
Operational commitments		
• The municipality has entered into agreements with service providers for the provision of various services. At reporting date the municipality has outstanding operational commitments.	152 213 572	115 534 091

During the 2017/18 financial year a finding was raised by the external auditors with regard to completeness and accuracy of the commitments disclosed for 2016/17 and 2017/18 the entire population was revisited for both years and the closing balance 2017/18 was restated as follows :

Capital Commitment - R 48 764 267
Operational commitment R 227 039 503

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Notes to the Annual Financial Statements

Figures in Rand	2019	2018	
48. Contingencies			
Forthwith is a list of possible liability claims where the outcome was unknown at 30 June 2019	Claim amount	cause of action	status of the outcome of the dispute
LC Coetzee	1 050 000	Accident on Paul Sauer Street, on 15 October 2015, the Plaintiff overtook a vehicle when she collided with another vehicle. The Plaintiff alleges that the Municipality has a duty to the following; Construct and maintain roads in such a way that they are safe for all users; provide and display speed limit signs indicating the correct speed limit; manage and operate all roads in a manner commensurate with their design; and take appropriate steps to remove or limit danger on the roads.	Matter is pending until the RAF Matter is finalized
Dark fibre	218 256	Claim for damages as a result of the Plaintiff's cables being damaged due to the alleged negligence of the Defendants employees	Matter is postponed to 21/01/2020
Debbie sutherland	920 000	Claim for damages as a result of the Plaintiff suffering injuries when the vehicle she was travelling in, collided with a pothole.	The matter is being defended and still pending
NS Sgudla obo Sbusiso Zwelibanzi Nkosi	2 500 000	Claim for damages as a result of a minor child playing at or near a substation wherein the minor child came into contact with high voltage electricity and sustained severe electrical shock resulting in sever facial and bodily burns.	The matter is being defended and still pending
PT Makwakwa obo Nthabiseng Pascaline Inematse	2 500 000	Claim for damages as a result of a minor child playing at or near a substation wherein the minor child came into contact with high voltage electricity and sustained severe electrical shock resulting in sever facial and bodily burns.	The matter is being defended and still pending
Relay Settings	6 007 482	Claim for outstanding payments as a result of goods supplied and delivered.	The matter is being defended and still pending
Sasol Gas	3 334 111	The Plaintiff alleges that due to Municipal employees negligence in laying a water pipe, damage was caused to their gas line.	The matter is being defended and still pending

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Figures in Rand		2019	2018
48. Contingencies (continued)			
Tiva Clement	40 208	On or about 26 July 2015 at or near the intersection of Main Streets and Elizabeth Avenue, Witbank, Plaintiff incurred damages to his motor vehicle when he drove over an allegedly unmarked island.	The matter is being defended and still pending
Witbank Abbatoir	135 707	The Plaintiff alleges that on or about the 19 and 23 of February 2007 the Municipality deliberately interrupted water supply to the abbatoir. As a result of same, the Plaintiff could not conduct normal business and subsequently incurred damages.	The matter is being defended and still pending
Nomgqibelo Annah Ntuli	2 650 000	Claim for damages as a result of the Plaintiff being injured when she fell into an uncovered drain	The matter is being defended and still pending
MP Kleynhans	9 600 000	Claim for damages as a result of failure by the Municipality to repair potholes. The Plaintiff broke his spinal cord while driving his motor bike and allegedly fell into a pothole	The matter is being defended and still pending
Martha Mthombeni Klaas	30 000	The Red Ants (Service Provider to the Municipality) demolished the Applicant's property. As a result, she is suing the Municipality for the damages	The matter is being defended and still pending
Track Optimum	3 000 000	Claim for outstanding payments of invoices for services rendered, in the provision of security services to the Municipality	The matter is being defended and still pending
MM Lesoalo	13 632	Vehicle damage due to municipality gate malfunctioned	The matter is being defended and still pending
K Wepener	11 866	Vehicle damaged by pothole	The matter is being defended and still pending
H R Peterson	3 348 100	Vehicle damaged by pothole	The matter is being defended and still pending
Sibanyoni	27 054	Vehicle damaged by pothole	The matter is being defended and still pending
	35 386 416		

49. Related parties

There were no related party transactions identified during the course of the 2019 financial year other than those disclosed in note 34 (Remuneration of executive directors) -35.

Emalahleni Local Municipality

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Figures in Rand	2019	2018
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50. Change in estimate

Property, plant and equipment

During the 2019 financial year management has taken a decision to change the useful life of some assets due to a change in their current condition. The net impact of the change is as follows :

	Depreciation 30 June 2018	Adjustment due to a change in accounting estimate	Total
Electricity	43 055	(17 229)	25 826
Roads and storm water	19 669 259	(8 150 747)	11 518 512
Sewerage	303 309	(138 777)	164 532
Investment property	1 825 296	(389 149)	1 436 147
	21 840 919	(8 695 902)	13 145 017

51. Prior period errors

Presented below are those items contained in the statement of financial position, statement of financial performance and cash flow statement that have been affected by prior-year adjustments.

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Figures in Rand	2019	2018
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51. Prior period errors (continued)

Debt impairment

During the audit of 2018 financial year it was identified that the reconciliation for impairment in note number 13 on the annual financial statements differed from the expensed debt impairment recognised in the statement of financial performance by R98 434 128 which resulted into debt impairment being understated and receivables overstated.

Property, plant and equipment

During the financial year management management discovered Gains during the physical verification on certain classes of Property, Plant and Equipment. The above was corrected retrospectively. Furthermore, landfill sites were not correctly accounted for during the prior years.

Payables from exchange transactions

During financial year under review it was identified that payables for audit fees were recorded under other payables instead of trade payables, therefore a reclassification of an amount of R2 114 624.87 was done from other payables to trade payables. During the 2015/16, 2016/17 and 2017/18 financial year an audit finding was raised with regard to trade payables balances that could not be confirmed due to limitation of scope, during 2018 confirmations were requested from creditors of which only a portion of the balance was confirmed and the balance of R741 146 026.11 could not be confirmed. A write off was approved by council during 2018/19 based on the requirements of the Prescription Act, Act 68 of 1969 as a result trade payables closing balance for 2017/18 were restated and the related expenses were written off through the accumulated surplus. During the current year under review it was identified that invoices relating to the prior years from different suppliers were not accrued and incorrect allocation as a results payables from exchange transactions were understated and expenditure were understated by R3 185 375.13.

Consumer debtors

During 2018/19 financial year management identified that there were transactions which were double receipted during 2017/18 as a results cash and cash equivalent was overstated and trade receivables understated. During 2018/19 financial year management identified that there was an over banking by the cashiers during 2017/18 as a results cash and cash equivalent overstated and trade receivable understated. During 2018/19 financial year management identified that there were debit orders which were overstated and also there were debit orders returned by the bank as a results cash and cash equivalent overstated and trade and other receivable understated. During 2018/19 management identified an error on the transactions accounted for, for the easypay payments as a results cash and cash equivalent was overstated, VAT output for consumer levies understated, trade receivables understated, non-exchange receivables understated, VAT control input and output misstated, the output VAT received from debtors misstated as well as payments received in advance from consumer debtors overstated.

Cash and cash equivalent

During 2018/19 financial year management identified that there was a difference on the cash on hand recognised during 2017/15 as a results the cash on hand was overstated. During 2018/19 financial year management identified that there were transactions which were double receipted during 2017/18 as a results cash and cash equivalent was overstated and trade receivables understated. During 2018/19 financial year management identified that there was an over banking by the cashiers during 2017/18 as a results cash and cash equivalent overstated and trade receivable understated. During 2018/19 financial year management identified that there were debit orders which were overstated and also there were debit orders returned by the bank as a results cash and cash equivalent overstated and trade and other receivable understated. During 2018/19 management identified an error on the transactions accounted for, for the easypay payments as a results cash and cash equivalent was overstated, VAT output for consumer levies understated, trade receivables understated, non exchange receivables understated, VAT control input and output misstated, the output VAT received from debtors misstated as well as payments received in advance from consumer debtors overstated.

VAT Receivables

During 2018/19 management identified an error on the transactions accounted for, for the easypay payments as a results cash and cash equivalent was overstated, VAT output for consumer levies understated, trade receivables understated, non-exchange receivables understated, VAT control input and output misstated, the output VAT received from debtors misstated as well as payments received in advance from consumer debtors overstated.

Finance lease obligations

During 2018/19 financial year assets verification management identified new leased assets that were obtained in 2017/18 however they were not accounted for as a results the leased assets were understated and the finance lease obligation understated by R550 798.

Employee related costs.

Correction of error for the provision for 13th cheque bonus amounting to R4 345 256 not paid as 30 June 2018 as a results the

Emalahleni Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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51. Prior period errors (continued)

employee cost for 2017/18 was understated and the provision was understated.

Depreciation and amortisation

During 2018/19 financial year management discovered Gains during the physical verification on certain classes of Property, Plant and Equipment which resulted into increase on the depreciation and amortisation previously reported. The above was corrected retrospectively

Finance costs

During August 2019 management received invoices for Interest on long outstanding invoices for 2016/17 and 2017/18 from department of water affairs as a result the finance cost was understated and the payables were understated with an amount of R2 508 721.

Contracted services

During 2018/19 financial year management identified that there were maintenance of unspecified assets which were incorrectly accounted for during 2017/18 financial year as a results the expenditure for contracted services was overstated.

General expenses

During 2018/19 financial year management identified that an invoice for SALGA membership was received in advance during 2016/17 financial year which related to the 2017/18 membership fees however fees for three(3) months were recognised in 2016/17 as a result of general expenses for 2017/18 were understated and payables understated.

Public contribution and donations

During 2018/19 assets verification management identified assets which were donated but in 2017/18 financial year however they were not accounted for as a results the public contribution and donations was understated, related assets understated as well as the depreciated for the related assets.

Interest revenue

During 2018/19 financial year management identified that there was interest earned on the collateral investments amounting to R17 398.26 for 2017/18 financial year however it was not recognised during 2017/18 as a result the interest on investments was understated.

52. Prior-year adjustments

Presented below are those items contained in the statement of financial position, statement of financial performance and cash flow statement that have been affected by prior-year adjustments:

Statement of financial position

2018

	Note	As previously reported	Correction of error	Restated
Consumer debtors	13	1 853 076 539	2 309 502	1 855 386 041
Cash and cash equivalent	14	12 404 659	(5 926 501)	6 478 158
Property plant and equipment	5	5 589 262 745	(87 658 406)	5 501 604 339
Payables from exchange transactions	19	3 083 358 861	(732 502 079)	2 350 856 782
VAT receivables	12	138 377 841	(55 460)	138 322 381
Finance lease obligation	15	1 583 658	898 282	2 481 940
		0 678 064 303	(822 934 662)	9 855 129 641

Statement of financial performance

Emalahleni Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand		2019	2018	
52. Prior-year adjustments (continued)				
2018				
	Note	As previously reported	Correction of error	Restated
Employee costs	34	(800 249 027)	(4 345 256)	(804 594 283)
Depreciation and amortisation	36	(279 591 866)	(21 477 762)	(301 069 628)
Finance costs	38	(129 855 319)	(2 508 721)	(132 364 040)
Debt impairment	39	(531 787 567)	(98 434 128)	(630 221 695)
Contracted services	41	(235 046 274)	790 000	(234 256 274)
General expenses	42	(175 907 886)	(1 812 548)	(177 720 434)
Public contributions and donations	33	11 488 253	3 750 459	15 238 712
Interest received	29	226 564 194	17 398	226 581 592
Surplus for the year		(1 914 385 492)	(124 020 558)	(2 038 406 050)

Reclassifications

The following reclassifications adjustment occurred:

Receivable from non - exchange transactions

During the 2018 financial year management reclassified transactions which were erroneously classified as receivables from non- exchange transactions instead of receivables from exchange transactions

	As previously reported	Reclassification	Restated
Receivable from other exchange transactions	39 877 886	10 736 573	50 614 459
Receivables from non- exchange transactions	23 159 644	(10 736 573)	12 423 071
	63 037 530	-	63 037 530

53. Risk management

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Consumer debtors comprise a widespread customer base. The municipality manages its credit risk through payment of deposits disconnection in case of non-payment.

Financial assets exposed to credit risk at year end were as follows:

Financial instrument	2019	2018
Trade and other receivables	293 106 156	269 153 503

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Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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54. Going concern

We draw attention to the fact that at 30 June 2019, the municipality had current year deficit of R 51 370 991 and that the municipality's liabilities exceed its assets by R 635 459 925. This is mainly due to municipally struggling to collect moneys owed to its by its customers, leading to serious cash flow problems being experienced, hence difficulties in selling accounts on time.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business. This is strengthened by the fact that the municipality, in terms of legislation, has the power to levy rates which guarantees continued generation of revenue. The municipality is implementing various initiatives to improve the current situation.

55. Unauthorised expenditure

Opening balances	860 427 591	834 460 077
Unauthorised expenditure current year	518 787 643	222 041 583
Expenditure authorised during the year	(860 427 591)	(196 074 069)
	518 787 643	860 427 591

56. Fruitless and wasteful expenditure

Opening balance	406 746 289	296 573 106
Claims	520 469	1 185 852
Write-off	(406 746 289)	-
Eskom interest	391 073 041	105 348 820
SARS interest and penalties	-	2 745 861
Interest accrued on late payments of suppliers	696 197	892 650
Department of water	8 131 196	-
Closing balance	400 420 903	406 746 289

The municipality restated the 2017/18 fruitless and wasteful expenditure this was due to invoices from department of water which relate to 2016/17 and 2017/18 financial year which were received in the current year.

57. Irregular expenditure

Opening balance	323 607 074	231 390 093
Add: irregular Expenditure-current year	88 854 893	92 216 981
Closing balance	412 461 967	323 607 074

Details of deviations - current year

Strip and Quote	9 720 081
Emergencies	2 145 829
Sole Suppliers	3 337 774
	15 203 684

Emalahleni Local Municipality

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Figures in Rand	2019	2018
58. Additional disclosure in terms of Municipal Finance Management Act		
Contributions to organised local government		
Current year subscription/fee	8 247 790	8 037 680
Amount paid - current year	(8 247 790)	(8 037 680)
	<u>-</u>	<u>-</u>
Audit fees		
Opening balance	248 377	6 520 987
Current year subscription / fee	8 387 556	7 590 817
Amount paid - current year	(8 412 902)	(8 432 064)
Credit note	-	(5 431 363)
	<u>223 031</u>	<u>248 377</u>
PAYE and UIF		
Current year subscription / fee	152 348 482	131 315 799
Amount paid - current year	(152 348 482)	(131 315 799)
	<u>-</u>	<u>-</u>
Pension and Medical Aid Deductions		
Current year subscription / fee	226 299 137	135 454 854
Amount paid - current year	(226 299 137)	(135 454 854)
	<u>-</u>	<u>-</u>

Emalahleni Local Municipality

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Figures in Rand 2019 2018

58. Additional disclosure in terms of Municipal Finance Management Act (continued)

Councillors' arrear consumer accounts

The following Councilors had arrear accounts outstanding for more than 90 days at 30 June 2019:

30 June 2019	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
CLLR EN Mazibulo	-	6 544	6 544
CLLR MB Jiyane	-	8 603	8 603
	-	15 147	15 147
30 June 2018	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
CLLR D M Skhosana	4 006	-	4 006
CLLR TT Mathebula	6 449	-	6 449
CLLR NL Mofokeng	295	-	295
CLLR MC Hilton	1 546	-	1 546
CLLR P L Debelia	587	-	587
CLLR PN Mazibulo	5 778	-	5 778
CLLR VL Chembe	203	-	203
	18 864	-	18 864

During the year the following Councilors' had arrear accounts outstanding for more than 90 days.

59. Budget differences

Material differences between budget and actual amounts

The excess of actual expenditure over the final budget of 10% is detailed below.

Emalahleni Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand		2019	2018
59. Budget differences (continued)			
Descriptions	%	Reasons	
Rental of facilities and equipment	321.2%	Over budgeted during adjustment budget, due to revenue that was incorrectly included under rental of facilities instead of other income.	
Licence and permits	87.6%	Under budgeted as additional licence fees were collected during the year	
Commission received	14001%	Under budgeted as additional licence fees were collected during the year	
Sundry income	30.3%	The under budgeting was due to consumer that were not paying their accounts. There increase is more than it was initially anticipated.	
Dividends received	100%	There was no budget allocations due to unpredictability of market movements.	
Public contributions and donations	705.6%	This is due to the fact that most of the projects were not recognised as revenue as they are still work in progress	
Fines	845.2%	Additional revenue realised due to I-GRAP	
Finance cost	61.6%	The finance cost has increased due to Eskom debt has escalated more than initially anticipated.	
Lease rentals on operating lease	100%	Reclassification on mSCOA .It was budgeted for under general expenses.	
Debt impairment	58.9%	This was due to a re-assessment of our debtors book.	
Contracted services	12.0%	Under budgeted due to mSCOA reclassifications. Other line items were budgeted for under other expenditure.	
Grants and subsidies	37.3%	Indigent register was reduced due to verification which denied some of the consumer from being indigent.	
Impairment loss	100%	Under budgeted due to MSCOA reclassifications. other line items were budgeted for under other expenditure.	
Depreciation and amortisation	12.7%	This is due to the re-assessment of useful life	
Fair value adjustments	100%	There was no budget allocations due to unpredictability of the nature of the transaction.	